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CANADIAN WESTERN BANK
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PROFILE:
Thompson, Manitoba

FEATURE:
A Primer on Rising Inflation

OPINION:
Getting better grades: can Canada pull up its socks?

CanadaWest FOUNDATION

Our Vision
A dynamic and prosperous West in a strong Canada.

Our Mission
A leading source of strategic insight, conducting and communicating non-partisan economic and public policy research of importance to the four western provinces and all Canadians.

CURRENTS Western Canada's Monthly Economic Bulletin

Vol. 2008, No. 8 a CanadaWest Foundation publication

Monthly Highlights

The national rate of unemployment edged down only slightly in July to 6.1%, despite an unexpected large drop in the number of jobs. All four of the western provinces continued to have unemployment rates well below the national rate.

Alberta and Saskatchewan led the country for the largest year-over-year average weekly earnings growth in May. Manitoba also exhibited strong weekly earnings growth, placing fourth among the provinces with growth above the national average.

The rise in gasoline prices pushed the 12-month inflation rate in June to 3.1%, which is the largest increase since September 2005. Alberta experienced the largest increase in inflation. However, if energy components are excluded, Saskatchewan recorded the highest increase in annual inflation due to rising house prices.

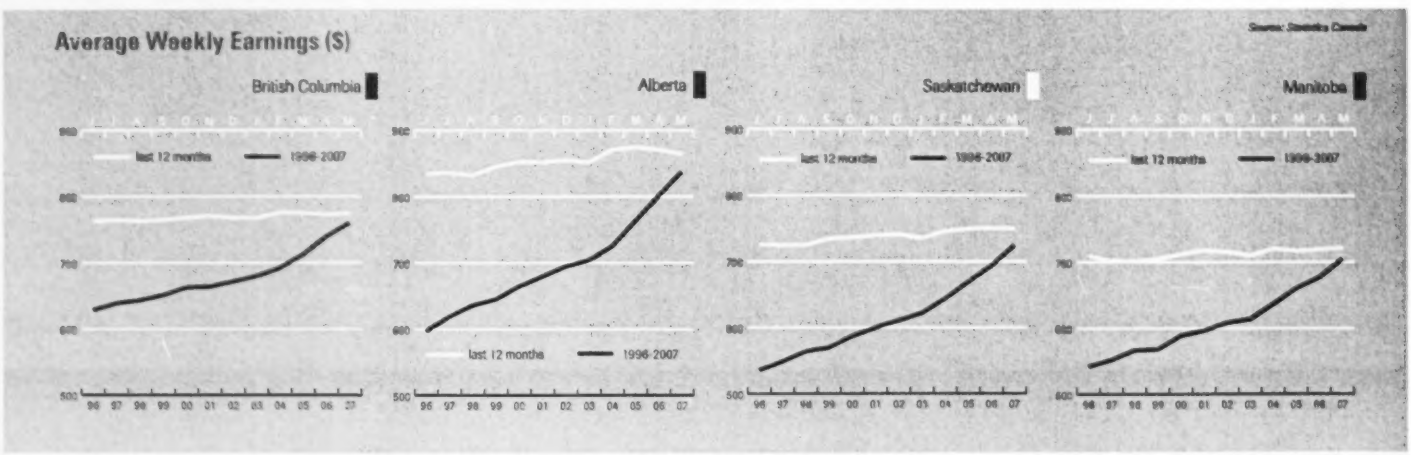
Alberta and Manitoba experienced the largest drop in June for residential building permits out of the western provinces. Saskatchewan had the highest year-over-year growth in both residential and non-residential building permits in the West.

Retail sales increased in May, with Saskatchewan experiencing the highest increase in retail trade in the country with a 1.8% increase over April.

National manufacturing sales increased slightly in May. Saskatchewan and Alberta posted the highest monthly increases in manufacturing sales of any of the provinces, with sales in both provinces increasing by over 8% from the previous month.

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Employment (SA, 000s)	2,324.6	2,010.9	505.4	609.6	17,084.2	July
% change, 3-month ma, yoy	2.7	2.8	1.9	2.0	1.7	
Unemployment rate (SA, %)	4.4	3.6	4.4	3.8	6.1	July
Participation rate (SA, %)	66.7	74.5	68.9	69.6	67.5	July
Average weekly earnings (SA, $)	774.67	864.28	749.43	721.50	791.48	May
% change, 3-month ma, yoy	2.8	5.8	5.2	3.5	3.1	
CPI inflation, annual (%)	3.0	4.4	3.4	2.4	3.1	June
Building permits: residential (SA, $ millions)	616.9	495.1	113.0	76.6	3,564.8	June
% change, 3-month ma, yoy	-19.4	-30.6	69.8	11.3	-3.5	
Building permits: non-residential (SA, $ millions)	448.3	698.6	79.2	44.7	2,753.5	June
% change, 3-month ma, yoy	10.5	-0.5	27.1	-21.2	3.9	
Housing starts (SAAR, 000s)	37.3	29.0	4.7	3.4	186.5	July
% change, 3-month ma, yoy	0.8	3.2	7.9	-11.2	-6.2	
Retail trade (SA, $ millions)	4,759	5,142	1,211	1,256	35,784	May
% change, 3-month ma, yoy	2.3	1.1	13.1	6.7	3.8	
Wholesale trade (SA, $ millions)	4,390	5,774	1,691	1,083	44,203	May
% change, 3-month ma, yoy	-1.0	11.0	34.7	0.2	0.6	
Manufacturing sales (SA, $ millions)	3,483	6,183	1,097	1,342	51,417	May
% change, 3-month ma, yoy	7.3	1.6	17.7	4.9	4.8	

Source: Statistics Canada. yoy=year-over-year; ma=moving average; SA=seasonally-adjusted; SAAR=seasonally-adjusted at annual rates



CURRENTS
Western Canada's
Monthly Economic Bulletin

Did you know?

- In Canada, 64% of the population lives within 10% of the total land area.
- Canada's fertility rate is below the OECD average, with only 1.53 children born to women between the ages of 15 and 49.
- Canada has the fourth lowest tax rate for goods and services as a percentage of GDP out of the OECD countries, following the United States, Japan and Switzerland.
- Canadian labour productivity grew by 0.8% in 2006, the slowest of G7 nations.
- Over 19% of western Canada's population was born outside of Canada.
- Western Canada's share of Canada's total economic output (35.3%) exceeds its share of the total population (30.4%).

City in Profile: Thompson, Manitoba

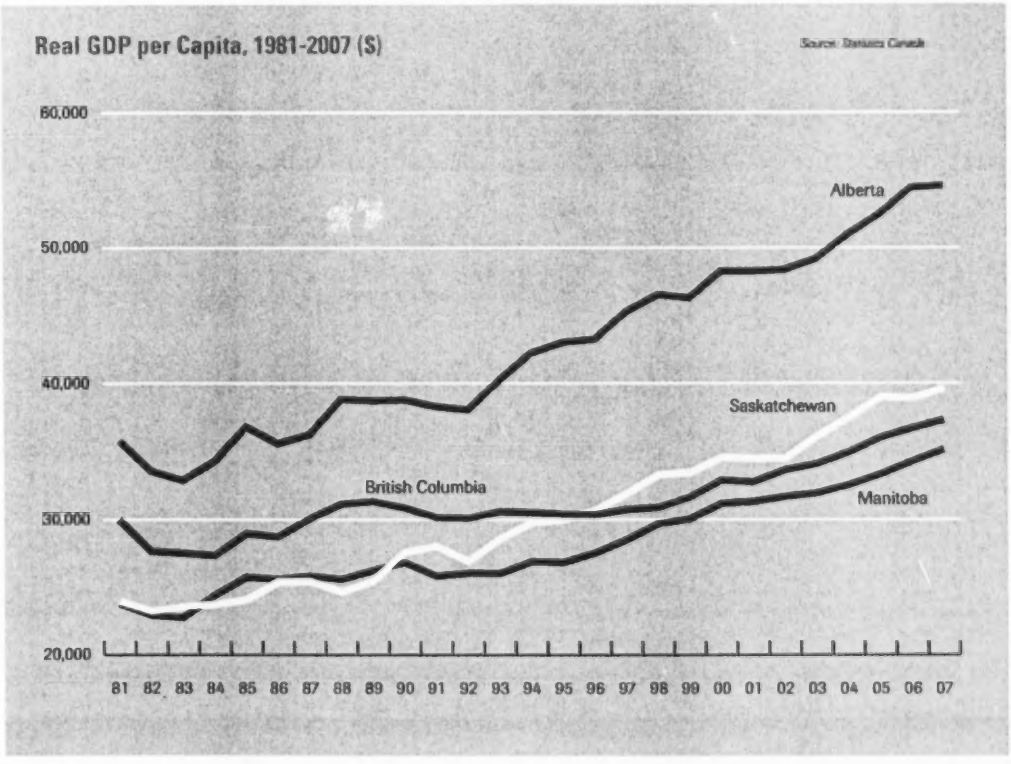
The City of Thompson, nicknamed the "Hub of the North," is located 739 kilometres north of the provincial capital of Winnipeg and serves as the regional trade and service centre of northern Manitoba. The city's population grew by 1.4% between 2001 and 2006 to approximately 13,500 people. The median age of the population in Thompson is 29.7 years, which is much younger than both the median age of 38.1 for Manitoba and 39.5 for Canada. According to the 2006 Census, Thompson's labour force participation rate, employment rate, and median household income are much higher than for the province as a whole.

The primary industry in Thompson is nickel mining, as the city was formed after the discovery of ore in 1956 by Inco Limited. Today, over 40% of Thompson's labour force is employed at the Inco Limited nickel mines. The rest of Thompson's industry is composed of mainly the government and service sectors, with 25% of the workforce employed by some level of government.

BEHIND THE NUMBERS

GDP per capita is a commonly used measure of overall economic well-being. Alberta has the highest per capita real GDP in Canada. The gap between Alberta and the other western province has grown over time. Growth in real GDP per capita in BC has lagged and its standing relative to other provinces has slipped since the early 1980s. During the middle of the 1990s, real GDP per capita in BC remained essentially flat.

From 1981 to 2007, average annual growth in real GDP per capita was 0.9% in BC, 1.9% in Alberta, 2.2% in Saskatchewan, and 1.8% in Manitoba. It is important to note that over this period Saskatchewan's population was more or less flat and Manitoba experienced very modest population growth.



Robert Bateman's Wolf standing 10-stories tall in Thompson, MB. Photo ©V Beckmann 2008

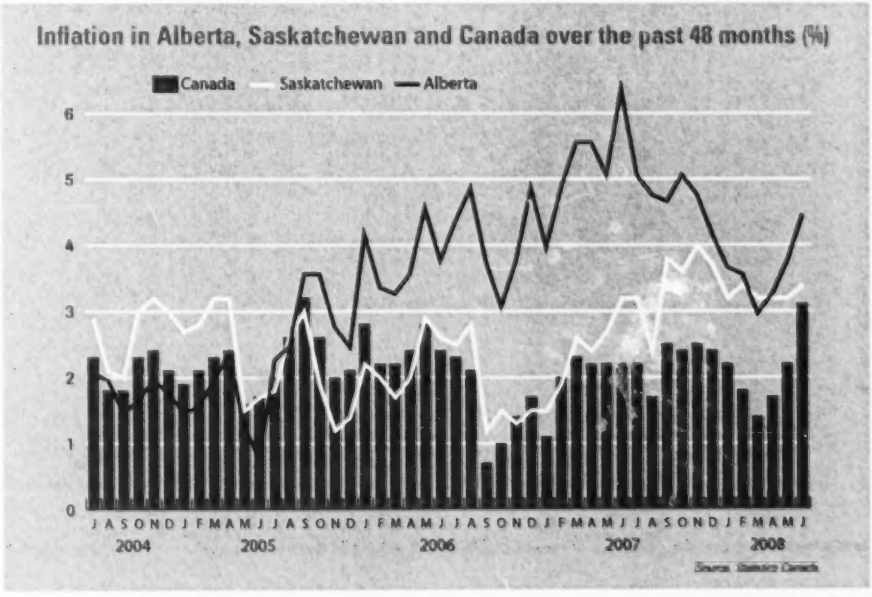
A PRIMER ON RISING INFLATION

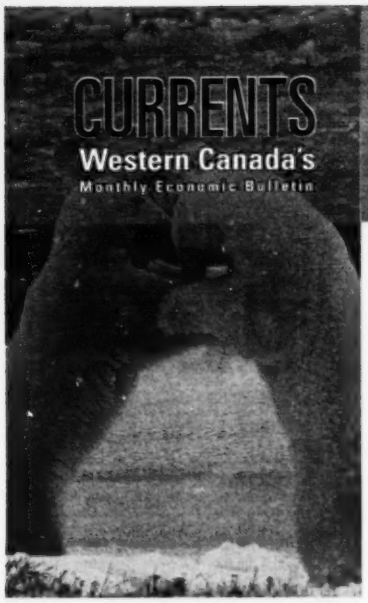
Recently, concerns over inflation have increased. Canada's national inflation rate hit 3.1% in June. As anyone who has filled up their car recently knows, the main culprit is the price of gasoline. Gasoline prices in June were 27% higher than the same time last year. This is after a 15% increase in May. Excluding energy and food, the inflation rate was a much lower 1.2%. In the US, the situation is a little more severe, with inflation hitting 5.0% due to soaring energy costs. This is the biggest increase in prices facing American consumers in 17 years.

Canada's average annual inflation rate has gone up and down over the past 40 years. It reached a high of 12.5% in 1981 and a low of 0.1% in 1994. The Bank of Canada aims to keep inflation low and stable—at about 2%. In recent years, inflation has been very close to this target. The central bank's rationale for this policy is that high and unstable inflation undermines the economy's ability to grow and create jobs over the long-term. It creates uncertainty for consumers and investors and erodes the value of incomes and savings. People on fixed incomes, including many seniors and poor Canadians, are particularly vulnerable to inflation. On the other hand, low and stable inflation helps create a positive climate for low interest rates and productive long-term investment. People and businesses are better able to plan for the future because they have confidence that their money is not losing its purchasing power year after year. The Bank of Canada argues that low inflation is self-reinforcing—if people and businesses are confident that inflation is stable and will not increase excessively, they are not as likely to overreact to price pressures in the short-term by seeking to raise prices and wages.

While the national rate of inflation shot up only recently, Albertans have been facing a much higher rate of inflation for quite a while. In June of last year, the rate of inflation in Alberta was running more than 2.5 times higher than a the national level, primarily because of large increases in the cost of housing. As the rate of increase in the price of housing and shelter have slowed, Alberta's inflation rate lowered and the gap between the provincial and national inflation rates lessened. In March 2008, Alberta's inflation rate slipped below 3% for the first time since December 2005. Despite this trend, Alberta still has the highest inflation rate of all Canadian provinces so far this year.

Not to be outdone, Saskatchewan's inflation rate picked up steam last year relative to the rest of the country, primarily because of soaring house prices and other cost pressures in a booming economy. Over the past 12 months, the rate of inflation in Saskatchewan has, on average, been more than one full percentage point higher than the national level.


Inflation in Alberta, Saskatchewan and Canada over the past 48 months (%)
Canada
Saskatchewan
Alberta
6
5
4
3
2
1
0
J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J
2004
2005
2006
2007
2008



Getting better grades: can Canada pull up its socks?

by Roslyn Kunin, Senior Fellow and Director of the BC Office

Recently, the Conference Board of Canada rated the country on the economy, innovation, environment, education and skills, health, and society. No grade is better than B and Canada does not even have to be in the top half of the 17 countries rated to get this B grade. The environment rates a C and innovation gets a pathetic D.

That D in innovation is bad enough on its own and even worse when we consider that the lack of innovation is seriously hurting our economy. Innovation is what gives business its competitive edge by providing new products and services and by increasing our productivity. Productivity (output per worker) not only helps our economy thrive; it is also what generates our incomes and our standard of living. No company can afford to pay a worker an income greater than what that worker produces. If they tried to do so, they would go out of business.

And Canada's productivity has been lagging the US and other countries for decades. For several years we hid from this bad news behind a low dollar. Currently, high resource prices shield us. Over the longer term, will we become more innovative, more competitive and more productive or will we take a nice, complacent, Canadian way out and settle down to "enjoy" a slow, continuous erosion of our absolute and relative standard of living.

Several steps are needed to reach a positive and productive outcome. We are already well on the path to achieving the first step which is to educate our workers. Canada is not doing badly in providing post-secondary education to its population. Certainly we could use more people in fields related to mathematics, science and technology. Certainly we can do better keeping up the skills of adult workers. Use it or lose it most definitely applies to training of all kinds. Even literacy skills, if they are not exercised, start declining after a few years away from the classroom.

The second step is to inculcate an entrepreneurial spirit into the Canadian workforce, especially among younger people. We need people who can ask and answer the question: What good or service can I provide that people are willing and able to pay for? We need people who are willing to invest the time and the effort that a successful business demands. We need those who are not afraid of failure. We need the attitude of Thomas Edison. After his first few hundred attempts had failed to produce a working incandescent bulb, he was told that he had wasted his time. "No, I haven't," was his response. "I now know a thousand ways of how not to make a light bulb."

We have many Canadians who were or are now in business programs. Unfortunately, too many of the programs and the students aim at jobs doing on-going work in existing large organizations. Canada has relatively few of these large companies and most innovation comes from smaller, newer firms.

Nevertheless, there are still many creative, new firms in Canada—at least for a while. In a phenomenon bemoaned by the Business Development Bank of Canada which encourages many such firms, we see too many new companies reach the brink of global success and then yield to foreign take-over and/or leave the country because we do not have enough of the kind of entrepreneurial, executive talent to take our leading edge firms onto the world stage.

The third and probably most important step for Canada to become a rising star in the world economy is to cultivate a culture of success. The good Canadian value of fairness has often resulted in our undervaluing success. For example, some people connected to high schools in Vancouver expressed reluctance to introduce mentoring programs to encourage students to enter the trades and technology. Why? Because such mentoring would not be available to all the students.

Canada needs more success and more heroes to impersonate it. We need to set ambitious goals and not fear the failures that may get in the way. Take the great Canadian hero Terry Fox. He set an amazing goal, and even though he did not get as far as he had hoped, no one would describe what he has accomplished as anything other than a wonderful success. We can apply the Terry Fox spirit to our economy, our businesses and our country. Then just watch us soar.

The Canada West Foundation's Going for Gold Project is examing how to improve Canada's international economic competitiveness.

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